



CONSUMER UPDATE

HOME LENDING AND FORECLOSURE RESCUE SCAMS

Overview:

Home lending and foreclosure rescue scams are serious problems, costing District residents thousands of dollars and often their most valuable asset—their homes. Scam artists have successfully targeted consumers in danger of losing their homes or home owners who are equity rich but cash poor. The elderly and those with low incomes or poor credit are particularly vulnerable.

FORECLOSURE RESCUE SCAMS – BIG PROMISES BUT NO RESULTS

If you are in foreclosure and desperate to save your home, you need to be extremely cautious of any claim offering to lower your monthly mortgage payment while also promising that in a short time you can own your home free and clear of any debt. The con artist claims to offer or arrange for a new loan, but instead tricks the homeowner into selling the home to the con artist or a third party and agreeing to either lease the home back or purchase it back on a land contract. The con artist or third party will pay off the existing mortgage or take out a loan. If the scammed homeowner lived in the home for a number of years, he or she likely built up and is surrendering significant equity. Equity is the market value of the home minus the value of all mortgages and other liens on the home. The con artist now owns the home and has stripped or taken the equity out of the scammed consumer's home.

The former homeowner's resulting lease or land contract payments may be lower for a few months, but a careful inspection of the agreement is likely to uncover an unaffordable balloon (a large lump sum) payment due at the end of a short time—sometimes only 13 months! This means the entire **remainder** of the agreement must be paid off. Few can afford the huge cost in such a short time. In the end, foreclosure “rescue” victims find themselves being evicted, and the con artist cashes in on the sale of the home!

This scheme is a form of equity stripping. Equity stripping occurs when the loan is made on the basis of the equity of the property, rather than the borrower's ability to repay the loan. This allows the borrower to benefit temporarily but, in the long run, only adds to his or her debt upon foreclosure.

LOCATING VICTIMS

Information disclosing the homeowner's name and the property description for a home in foreclosure is

readily available. The con artist obtains the legal description of a property in foreclosure and matches a street address, then solicits the distressed homeowner promising an alternative to foreclosure. Solicitations are made by letter, a home visit, a telephone call, a road sign, an advertising flyer, and radio or newspaper ads.

SENIOR CITIZENS AS ATTRACTIVE TARGETS

Seniors often live in homes for many years and the mortgage balance owed is very low or the home is paid for. By reviewing records accessible through the Recorder of Deeds and other sources, scam artists are able to determine how much any given individual owes on his or her home. The equity in your home is an attractive asset the con artist will encourage you to pledge or risk.

FALSE PROMISES

In a foreclosure situation, an individual or a company may offer to contact the lender on the homeowner's behalf or to work to get another lender to refinance and save the home from foreclosure. The con artist, however, does little or nothing to help a homeowner out of foreclosure. Any services actually performed could have easily been performed, at no expense, by the homeowner. When the homeowner learns the con artist has failed in his promised efforts, valuable time and money has been lost and the homeowner is forced into accepting the con artist's "rescue" program.

FAST CASH IF-YOU-OWN-YOUR-HOME HOOK

Be very cautious of claims offering to quickly get you out of debt by refinancing your home. Cash now and lower monthly payments means you will be paying off your mortgage over a longer period. Although you may see a few thousand dollars at the closing, your slightly lower mortgage cost may continue for 30 years instead of the few years you had left on the original mortgage. Additionally, lenders and brokers may add unnecessary closing costs and excess fees.

LOAN FLIPPING

Refinancing to obtain cash necessarily means a larger loan and likely means a higher interest rate and high-priced refinancing fees. Loan flipping occurs when a mortgage company or broker, after placing a borrower in a high-rate, high-cost loan, seeks to have the borrower refinance the transaction within a short period—often only six months to a year—after signing the original loan. The enticement is usually a slightly lower interest rate or monthly payment. However, the loan term becomes longer and the total cost of the loan increases. And, because various fees, such as loan origination fees and points, inevitably were financed the first time the loan was made, any refinancing where these fees are refinanced results in the consumer borrowing and owing more without any corresponding benefit.

FORGED QUIT CLAIM DEEDS

Homeowners may find they are victims of forgery when they begin to get mail with an unfamiliar name or mail in their name but for unfamiliar bills. These clues may evidence that the homeowner's signature was forged on a quit claim deed purporting to convey the property to the thief. The thief then takes out a new loan that provides for a substantial cash payment and disappears. The victimized homeowner is left with the burden of clearing title and his or her good name.

LOANS SECURED THROUGH IDENTITY THEFT

Crooks may not even bother with a quit claim deed, instead stealing your identity and taking out loans in your name. By the time you get the bills in your mailbox, the thief has made off with thousands from a lender who is not aware of any wrongdoing. The lender may even begin foreclosing on your home.

before you are aware anything is wrong. It can be very costly for the rightful homeowner to quiet title and reinstate proper ownership of the property.

PROTECT YOURSELF AND YOUR HOME

When reviewing mortgage choices, consider a Federal Housing Administration (FHA) insured mortgage. FHA loans have a low down payment requirement and easier credit and underwriting standards. Additionally, unlike most conventional lenders, FHA lenders are required to follow foreclosure prevention procedures designed to assist the homebuyer in keeping his or her home through rough times. For more information, see www.hud.gov.

Be sure your broker or your lender is licensed by the D.C. Department of Insurance, Securities and Banking (DISB) and is therefore authorized to sell mortgages in the District. To find out if a lender is authorized to sell mortgages in the District, contact DISB's Banking Bureau Licensing Division at (202) 727-8000. You may also check the Web site at www.disb.dc.gov

Important Points to Remember

1. Read and **understand** everything you sign.
2. Obtain copies of **everything** you sign. **Never** sign a blank document.
3. Don't sign a power of attorney without discussing with someone you know and trust.
4. Get all promises, as you understand them, **in writing**.
5. Don't deed your property to anyone without consulting an attorney or some other person you trust who is knowledgeable about real estate sales, mortgages and mortgage transactions.
6. Keep complete records of what and who you paid, including billing statements and cancelled checks.
7. Challenge charges you believe were not correctly billed.
8. Shop for the best loan for you and compare the charges of different mortgage brokers and lenders.
9. Be informed about the total cost of your loan including the interest rate, points and other fees.
10. Obtain a "Good Faith Estimate" of all loan and settlement charges before you agree to the loan or pay any fees.
11. Know what fees are nonrefundable if you decide to withdraw your loan application.
12. Ask your mortgage broker to explain exactly what the mortgage broker will do for you.
13. Know how much you and the lender are paying the mortgage broker for your loan.
14. Ask questions about charges and loan terms you do not understand.
15. A credit decision that is not based on your race, color, religion, national origin, sex, marital status, age, or whether any income is derived from public assistance.

Complaints:

If you believe you have been a victim of any of the above scams and would like to file a complaint, please contact DISB's Enforcement and Investigation Bureau at (202) 727-1563, or check our Web site at www.disb.dc.gov.